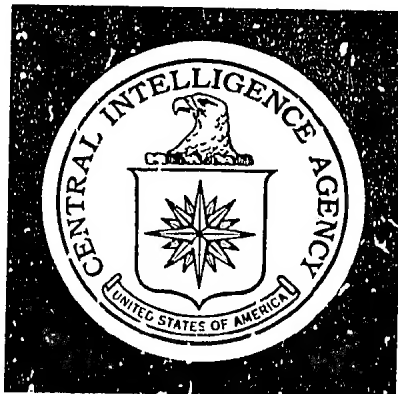


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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Economic Outlook for the Jordanian West Bank

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
June 1968

INTELLIGENCE MEMORANDUM

Economic Outlook for the Jordanian West Bank

Summary

After an initial sharp decline following the June 1967 war, the economy of the West Bank* has stagnated. Economic development is unlikely to resume until the area's future political status is clarified. The current level of economic activity, plus foreign aid, is sufficient to support the remaining West Bank population. Per capita annual income of about \$250 has remained at about prewar levels largely because of the exodus of refugees to the East Bank. This year the West Bank will receive \$24 million in aid from Israel for civil administration and public works and an additional \$10 million for balance-of-payments needs. The UN Relief and Works Agency for Palestinian Refugees (UNRWA) and other private organizations will supply \$9 million for refugee assistance. The area, extent, and principal cities of the West Bank are shown on the map, Figure 1.

The 1967 war and its aftermath have greatly affected the West Bank economy. Industrial production and construction activity have dropped sharply. Tourist income and remittances from West Bank citizens working abroad have also declined greatly, and investment (both public and private) has nearly come to a halt. On the other hand, almost unaffected by

* *The term West Bank, as used throughout this memorandum, comprises the part of Jordan west of the Jordan River but, unless otherwise stated, excludes the City of Jerusalem.*

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.

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the war and profiting from favorable rains, agricultural production set a record in 1967, and the traditional Arab markets for West Bank agricultural products have been maintained with the encouragement of the Israelis. The economic links to Jordan are still much stronger than the new links to Israel, from which the West Bank economy has been largely insulated.

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JORDAN: The West Bank

Figure 1



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The West Bank Economy

1. In spite of the rugged terrain and semiarid climate, agricultural land is the only natural resource of major importance on the West Bank. Agriculture dominates the West Bank economy and prior to the war provided up to 35 percent of gross national product (GNP) and employed 60 percent of the labor force. Agricultural production consists primarily of fruits and vegetables, most of which are exported to the East Bank for consumption or reexport. Most grain needs are filled through imports which probably account for some 60 percent of the population's caloric intake.

2. Industry consists almost entirely of very small plants and handicrafts that produce consumer goods and tourist items. Prior to the June war, tourism on the West Bank was centered in the City of Jerusalem and was of only moderate importance to the rest of the West Bank. Prior to the war, income earned on the West Bank was supplemented by transfers of funds from abroad -- consisting of remittances from Jordanians living abroad and UNRWA aid for large numbers of refugees -- and from the Jordanian government, whose expenditures on the West Bank greatly exceeded the revenues collected there. Together these transfers amounted to about 20 percent of available income on the West Bank. The estimated percentage distribution of income, by source, in 1966 was as follows:

	<u>Percent</u>
Agriculture	24
Commerce	17
Government	12
Income from abroad <u>a/</u>	12
Rent	8
Services	8
Industry	7
Construction	6
Transportation	4
Utilities	1
Banking and finance	1
<i>Total</i>	<i>100</i>

a. Excluding US aid and other income from abroad channeled through the government.

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General Economic Development

3. The economy of the West Bank grew substantially during the several years immediately prior to the June 1967 war. GNP is estimated to have increased about 6 to 7 percent annually, a rate higher than that in most nonoil-producing Arab countries, and to have amounted to approximately \$180 million in 1966.

4. The West Bank was important to the economy of Jordan primarily for the tourist income earned and as a market for East Bank products. Although the West Bank had nearly 50 percent of the population of Jordan, it provided a little less than 40 percent of total GNP. The larger share of agricultural output, manufacturing, trade, banking, government activities, construction, and transportation industries is on the East Bank.

5. Output and income on the West Bank were reduced greatly by the June 1967 war. Sharp declines took place especially in remittances, income from services, and government expenditures. Agricultural production in 1967, however, was at an all-time high and, with the decline in other sectors, may have amounted to 50 percent of GNP. The movement of more than one-fifth of the population to the East Bank probably resulted in per capita GNP remaining at or near its prewar level of about \$250. The people who fled were largely unemployed and unskilled, and their loss did not result in a proportional loss of production.

Agriculture

6. Agriculture, which dominates the economy and employs 60 percent of the employed labor force, did not suffer significantly from the war. Cultivation and harvesting were disrupted only in the Jericho and Jordan flood plain areas where labor shortages occurred. Few of the refugees who fled the West Bank were engaged in agriculture; in most cases, the farmers stayed with their land.

7. Much of the West Bank is not well suited to agriculture; about 609,000 acres are cultivated out of a total area of some 1.4 million (see the photographs, Figure 2).

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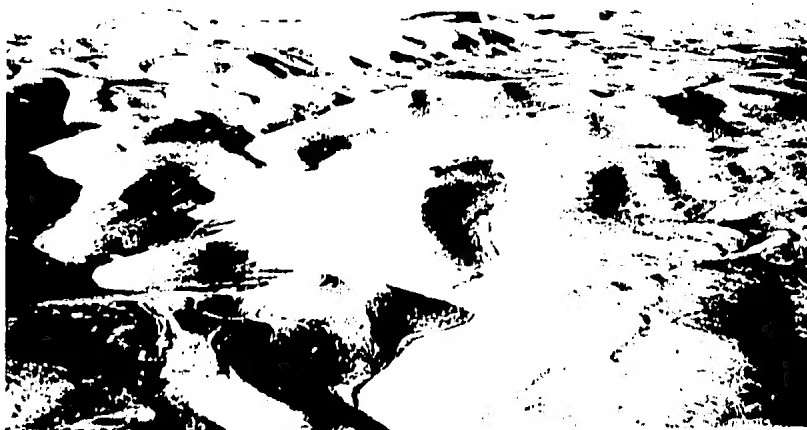
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Figure 2



*Typical Cultivated Hill in the Outskirts of
the City of Jerusalem*



*The West Bank Southeast of Nabulus; Such
Rugged Terrain Covers a Large Portion
of the West Bank*



*A View of the Jordan Valley Just Above Jericho.
The area near the river further upstream
is very fertile.*

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some additional land could be cultivated with crops suitable for rocky hillsides, and irrigated land probably could be doubled to about 10 percent of the cultivated area. About 70 percent of the farmers cultivate their own land, and there is little pressure for land reform.

8. Although agriculture still is carried out by relatively primitive methods, the use of machinery, fertilizer, insecticides, and pesticides has increased in recent years. The Jordanian government supplied long-term credit at 5 percent interest so that farmers could undertake long-range projects such as the development of orchards. In addition, the government built irrigation facilities and village roads, established cooperatives, and provided extension services. As a result, agricultural output was increasing noticeably before the war and should continue to do so for some time in the future, even without additional investments.

9. The Israeli government has continued the programs started by Jordan. Farm extension services are provided by the same personnel employed previously by Jordan, and some demonstration projects have been carried out by Israeli personnel. Interest rates for agricultural credit supplied by the Israeli government, however, have risen to between 8 and 9 percent. At present, Israel does not import most agricultural goods produced in the West Bank because of competition with Israeli products. Almost all exports of harvested crops are sold to the East Bank.

10. Half of the value of total crop production consists of fruit, including grapes, olives, citrus, figs, and bananas. Continued expansion of fruit production is assured since many orchards have not yet matured. Production of melons, tomatoes, cucumbers, and potatoes has increased in recent years as irrigation has been developed, but new irrigation projects are unlikely to be undertaken until a political settlement is made, and only small increases in output will come from better use of fertilizers and pesticides. Grain production is small because of the rough terrain, and almost all grain products, including large amounts of wheat, which is the major source of food, must be imported.

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Industry

11. West Bank industry is tiny. Prior to the war, industry employed only about 7 percent of the labor force, contributed only slightly more than \$10 million annually to GNP, and received less than \$1 million annually in investment. Only two plants, a margarine plant in Nabulus and a plastics plant in Bethlehem, employ more than 100 workers. Most other establishments are handicraft shops, which produce and sell their own products in the local bazaar.

12. Approximately 60 percent of industrial output in 1965 consisted of food, textiles, and other basic consumer goods. Most of the inputs for the manufacture of textiles and consumer goods must be imported and are now obtained through Israel. Souvenir products, especially jewelry and religious items associated with the tourist industry, made up 30 percent of total industrial output, and the remainder came largely from the mining of limestone and other stone for construction purposes.

13. The June 1967 war brought industrial production to a near halt. A very slow revival has taken place since the war in some industries, such as the manufacture of glass and consumer goods, but even in these industries unemployment remains high. Israel has permitted the export of manufactured products to both the East Bank and Israel, but industries that compete with Israeli industry have shown few signs of life.

14. The failure of industry to recover more fully since the war stems largely from a lack of demand. This decrease in demand was caused by unemployment in the construction and service sectors, a major reduction in income from tourists, the closing of commercial banks, and the decrease in population resulting from the flight of refugees. Revival of industry also has been hindered by the need to pay high Israeli taxes and import duties on inputs for production. Industries producing goods in competition with Israeli industries are especially handicapped.

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Construction

15. The construction industry was the third largest employer on the West Bank, engaging between 20,000 and 25,000 persons in 1966, or more than 11 percent of total employment. The construction sector also accounted for about 80 percent of total investment, mostly for housing.

16. The construction industry almost came to a complete halt after the June 1967 war. Only a few of the projects under way prior to the war have been resumed, and still fewer new projects have been initiated. Construction activity has remained dormant because of economic and political uncertainty and lack of funds for long-term loans as a result of the closing of Arab banks.

Banking and Currency

17. The banking system prior to June 1967 consisted of 22 branch banks representing seven parent banks in Amman. Four of the parent banks and 13 of their branch banks are Jordanian owned. Three of the parent banks and their nine branches were foreign banks. Since the war, all of the former banks have remained closed, but a few branches of major Israeli banks have been established on the West Bank.

18. Closing of the Arab banks reduces prospects for an increase in economic activity. Long-term loans have been especially hard hit, with the result that long-term investment has practically ceased. The Israeli banks have been used very little because of distrust and high Israeli interest rates. Arab depositors may draw up to \$560 a month from their West Bank accounts at the commercial bank headquarters in Amman. The use of banking facilities in Amman has increased since early March 1968, when new regulations eased travel between the West Bank and the East Bank.

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19. Both the Israeli pound and the Jordanian dinar serve as legal tender. The official exchange rate, first set by the Israeli government at 8.4 Israeli pounds for one Jordanian dinar, was raised after the November 1967 Israeli devaluation to 9.8 pounds per dinar.

Prices

20. Prices have increased greatly on the West Bank since the 1967 war, primarily because most goods now imported are higher priced Israeli goods. As of February 1968, prices of basic foodstuffs, with the exception of flour, appear roughly to have doubled. Prices of manufactured consumer goods, increasingly obtainable only from Israel, are also higher. By contrast, in the last few years before 1967, prices were relatively stable. Some year-to-year variation in the price of foodstuffs reflected changes in agricultural production.

Foreign Trade*

21. The West Bank consistently has had a large trade deficit; the value of imports in 1966 was approximately five times the value of exports. The West Bank is a food deficit area, and even in years of high agricultural output, large imports of wheat and wheat products are required. Almost all of the machinery purchased and a large part of the raw materials used by industry must be obtained from abroad. The trade deficit has been financed through export of services, tourism, remittances from abroad, and large amounts of foreign assistance.

22. Prior to the June 1967 war, all exported goods went to the East Bank; about 50 percent were consumed there and the remainder reexported to nearby Arab countries. Since June 1967, nearly all commodity exports have continued to go as before to the East Bank and only small amounts have been sent

* *The term foreign trade, as used throughout this memorandum, includes trade with the East Bank and Israel.*

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to Israel. The trade deficit of the West Bank in 1967 was much smaller than in previous years. Agricultural exports were larger because the loss of one-fifth of the population did not result in a comparable drop in production and rains were unusually favorable. Imports of capital goods and industrial raw materials were less because of uncertainty caused by the war, higher costs of imports under Israeli tariffs, and the slowdown in development projects.

Tourism

23. Tourism was one of the major activities in the West Bank economy before the June war when the West Bank included the City of Jerusalem. Revenues increased fourfold, from about \$5 million in 1960 to about \$25 million in 1966, about two-thirds of which was received in Jordanian Jerusalem. Even with this high rate of growth, the tourist industry was just beginning to reach its potential and would have exceeded agriculture in importance to the economy by 1970.

24. The June war, however, brought a dramatic halt to the growth of tourism and a large decline in tourist earnings. Two-thirds of the West Bank's tourists prior to the war were Arabs who will not visit the West Bank while it is under Israeli control. The influx of Israeli tourists has compensated only to a small degree for the loss of Arab trade because the Israelis spend little and tend to leave the West Bank at night for the safety of Jerusalem or their homes in Israel.

25. The future of tourism on the West Bank depends on both the long-term political status and peacefulness of the West Bank. Until the status of the West Bank is determined, further investment in the tourist industry is unlikely. Israeli investment probably will be concentrated in the Israeli section of Jerusalem, increasing its position as the major tourist center in the area. The number of tourists from Europe and the United States probably will remain low as long as terrorism continues.

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Balance of Payments

26. In the last few years prior to the Arab-Israeli War, the West Bank, in spite of its large trade deficits, experienced balance-of-payments surpluses. In 1966 the surplus amounted to \$8 million and was due largely to transfer payments totaling \$36 million, including substantial foreign aid. In addition, the excess of Jordanian government expenditures over revenues amounted to \$17 million. An increase in tourist earnings also was an important factor in the balance-of-payments surplus in the last few years.

27. In 1967 the West Bank's balance of payments was in deficit. Even though the normal trade deficit was cut in half, tourist earnings, transfer payments, and remittances from abroad were cut even more. Many persons migrated to the East Bank because of the difficulty of receiving remittances from an Arab country in territory occupied by Israel. The projected balance of payments of the West Bank without Jerusalem in 1968 is shown in the accompanying table.

Economic Aid

28. The West Bank can maintain its present level of economic activity but cannot expect any additional development with the amount of economic aid that is now expected. During fiscal year 1968/69, Israel plans to spend about \$24 million for payment of civil servants and public works in the West Bank. In addition to direct aid, Israel will contribute about \$10 million in foreign exchange to finance the balance-of-payments deficit. UNRWA and private relief agencies will contribute about \$9 million. Until the political disposition of the area is resolved, however, additional foreign aid for economic development probably will not be forthcoming.

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Table

Balance of Payments for the West Bank
Excluding Jerusalem
1968

	<u>Million US \$</u>
Commodity trade account	
Import of goods	-42
Export of goods	14
Trade balance	<u>-28</u>
Services account (net)	
Tourism	4
Other	2
Balance on services	<u>6</u>
Unilateral transfers	
UNRWA	7
Private transfers	2
Remittances from abroad	3
Balance on unilateral transfers	<u>12</u>
<i>Deficit</i>	-10